



Market Issues Important To Livestock Producers

Prepared for:

American Farm Bureau
Beef Cattle Advisory Committee
Dallas, Texas

February 21, 2006

Outline



- Mission, Organization & Structure
- P&SP Programs & Activities
- Livestock Industry Trends
- P&SP Response to Change



- Packers and Stockyards Program (P&SP) enforces the Packers & Stockyards Act
- The Packers and Stockyards Act helps promote an open and competitive market for livestock, meat, and poultry



Packers and Stockyards Program Western Regional Office Aurora, Colorado

“Ensure fair and competitive marketing for the livestock, meatpacking and poultry industries for the benefit of American agriculture.”



Mission Strategy



- **Educate** industry participants through outreach, orientations and communications
- **Regulate** subject activity through monitoring, annual reports and compliance programs
- **Investigate** potential violations through rapid response, compliance follow-up investigations

P&SP Authority



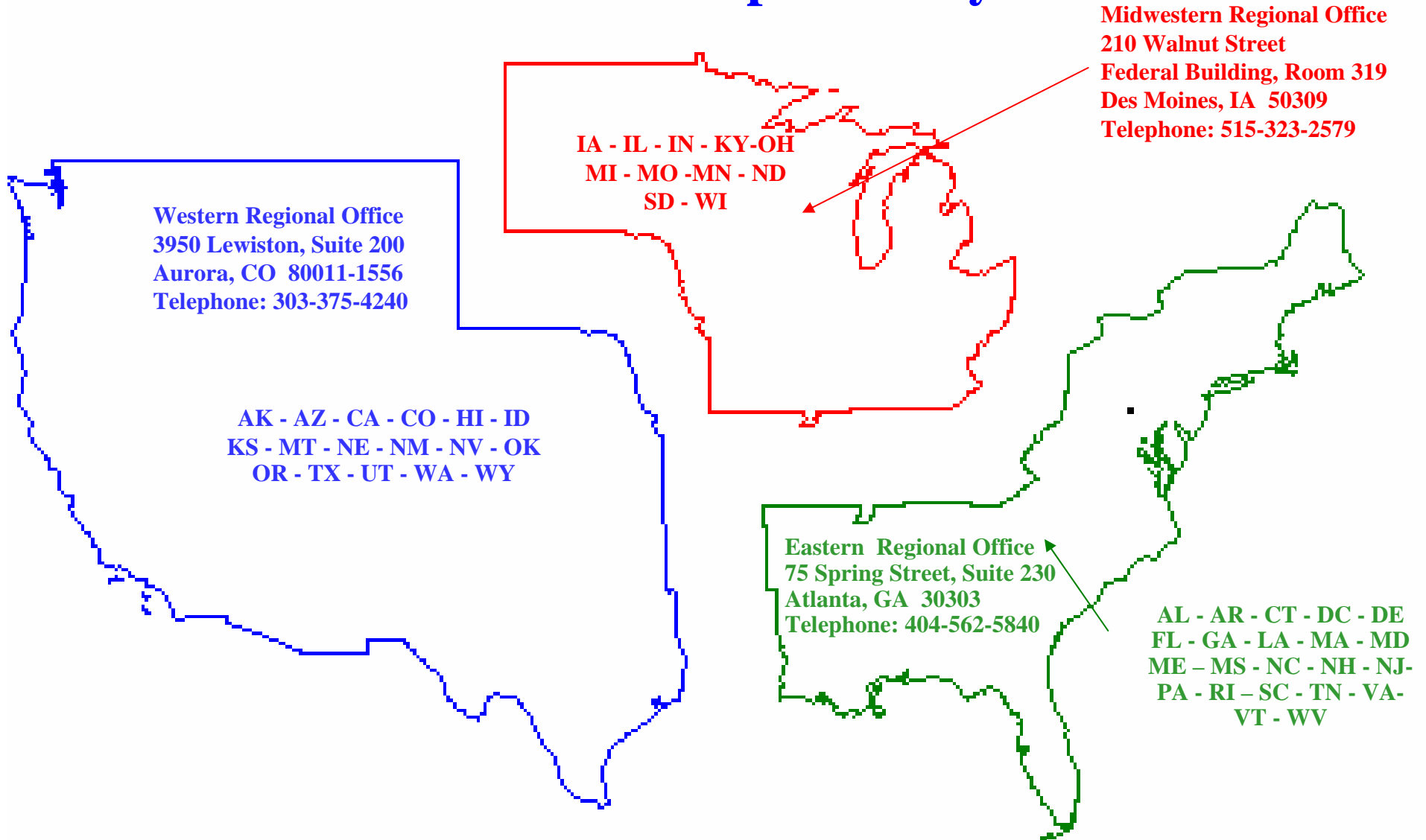
- Executive Branch Agency
- Secretary of Agriculture
- Under Secretary of Agriculture for Marketing & Regulatory Programs
- GIPSA Administrator
- P&SP Deputy Administrator



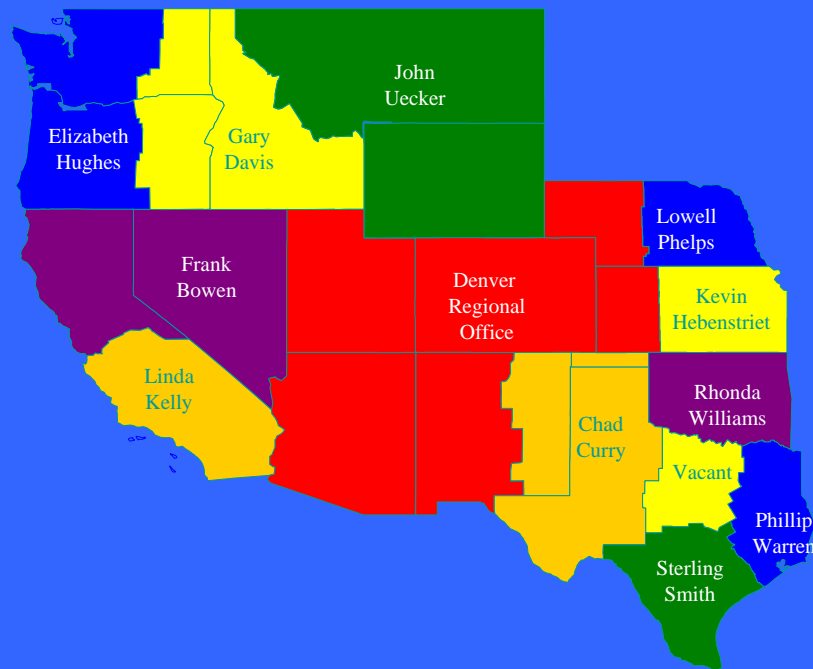
P&SP Structure

- 165 people at 3 regional offices and hdqrs. (28 are resident agents)
- Budget of about \$18 million
- P&S Act covers cattle, sheep, swine, horses, mules, goats, chickens, turkeys, ducks, geese, other domestic fowl
- P&S Act protects industries producing products valued at over \$118 billion

PSP Regional Offices and Areas of Responsibility



Denver Region's Resident Agent Duty Stations



J. Uecker
G. Davis,
J. Lopez,
L. Phelps,
R. Williams,
E. Hughes,
J. Edmond,
F. Bowen,
Vacant,
J. McDougal,
P. Warren,
C. Curry

Lewiston, MT
Boise, ID
Manhattan, KS
Lincoln, NE
Oklahoma City, OK
Portland, OR
San Marcos, TX
Davis, CA
Fresno, CA
Fort Worth, TX
Frankston, TX
Lubbock, TX



“P&SP Programs & Activities”

Program Areas



- **Competition**
- **Financial Protection**
- **Trade Practices**

Competition



- Horizontal Collaboration (allocation of territory, in input or output markets)
- Vertical Arrangements (linkage of a unrelated products or services to livestock marketing)
- Restrains of competition (predatory pricing, boycotting, agreements not to compete and intimidation)
- Conflicts of interest

Competition (Monitoring)



- Fed Cattle Price Monitoring Program
- Cow & Bull Price Monitoring Program
- Investigate accuracy of committed procurement reported by packers
- Monitor changes in packer procurement practices
 - Cattle and hog procurement contracts
 - Swine contract library

Financial



- Prompt Payment for Livestock & Poultry
- Custodial Account Requirements
- Analysis of Statutory Trust & Bond Claims
- Solvency Requirements
- Annual and Special Reports
- Adjust Bond Amounts for Volume Changes

Trade Practices



- Bonding & Registration Program
- Packer Procurement Investigations
- Weight & Price Transfer Investigations
- Weighing Investigations (carcass & live weight)
- Administer Scale Testing Program (livestock, carcass, poultry and feed scales)
- Carcass Measurement Devices & Equipment
- Stockyard Services & E-Commerce Investigations

Rapid Response Investigations



- **Competition:** Respond to events that provide potential for market manipulation
- **Financial:** Respond to complaints alleging a packer, auction market or dealer failed to pay for livestock
- **Trade Practices:** Respond to events leading to changes in industry practices or complaints concerning contracts

Enforcement Procedures



- Letters of Notice
- Formal Administrative Action
- Court Action – Justice Department

Justice Interaction



- GIPSA interactions with the Justice Department are governed by a memorandum of understanding between USDA and the Justice Department.
- Currently GIPSA has an employee working on a 120 day detail at the Justice Department.
- GIPSA provides procurement information related to proposed packer mergers and acquisitions.



“Livestock Industry Trends”

Industry Concentration



	1980	1985	1990	1995	2000	2002	2003	2004
CR4	35.7	50.2	71.6	80.8	81.4	79.2	80.2	79.6
HHI	561	999	1,661	2,036	1,939	1,842	1,900	NA



- Concentration stable since 1995
- Industry has been highly concentrated since 1990

	1980	1985	1990	1995	2000	2002	2003	2004
CR4	55.9	51.2	70.2	71.8	67.3	65.3	65.1	64.7
HHI	1,050	983	1,580	1,917	1,416	1,223	841	NA



- Concentration has decreased slightly since 1995
- HHI indicates the industry is now unconcentrated

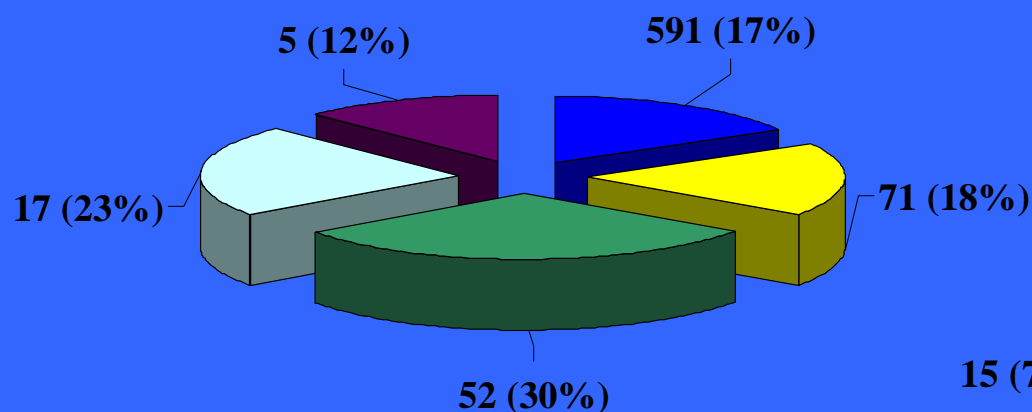
Fed Steer Prices



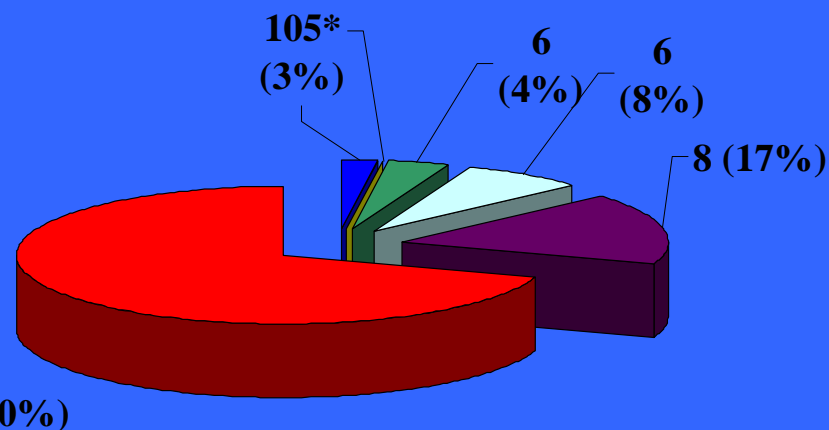
Steers and Heifers: Number of U. S. Plants and Percentage of Total Commercial Slaughter by Plant Size



1976



2001



■ less than 49,999 head

■ 50,000-99,999*

■ 100,000-249,999

■ 250,000-499,999

■ 500,000-1,000,000

■ 1,000,000 or larger

•Included in less than 49,999 size class in 2001 to avoid disclosure

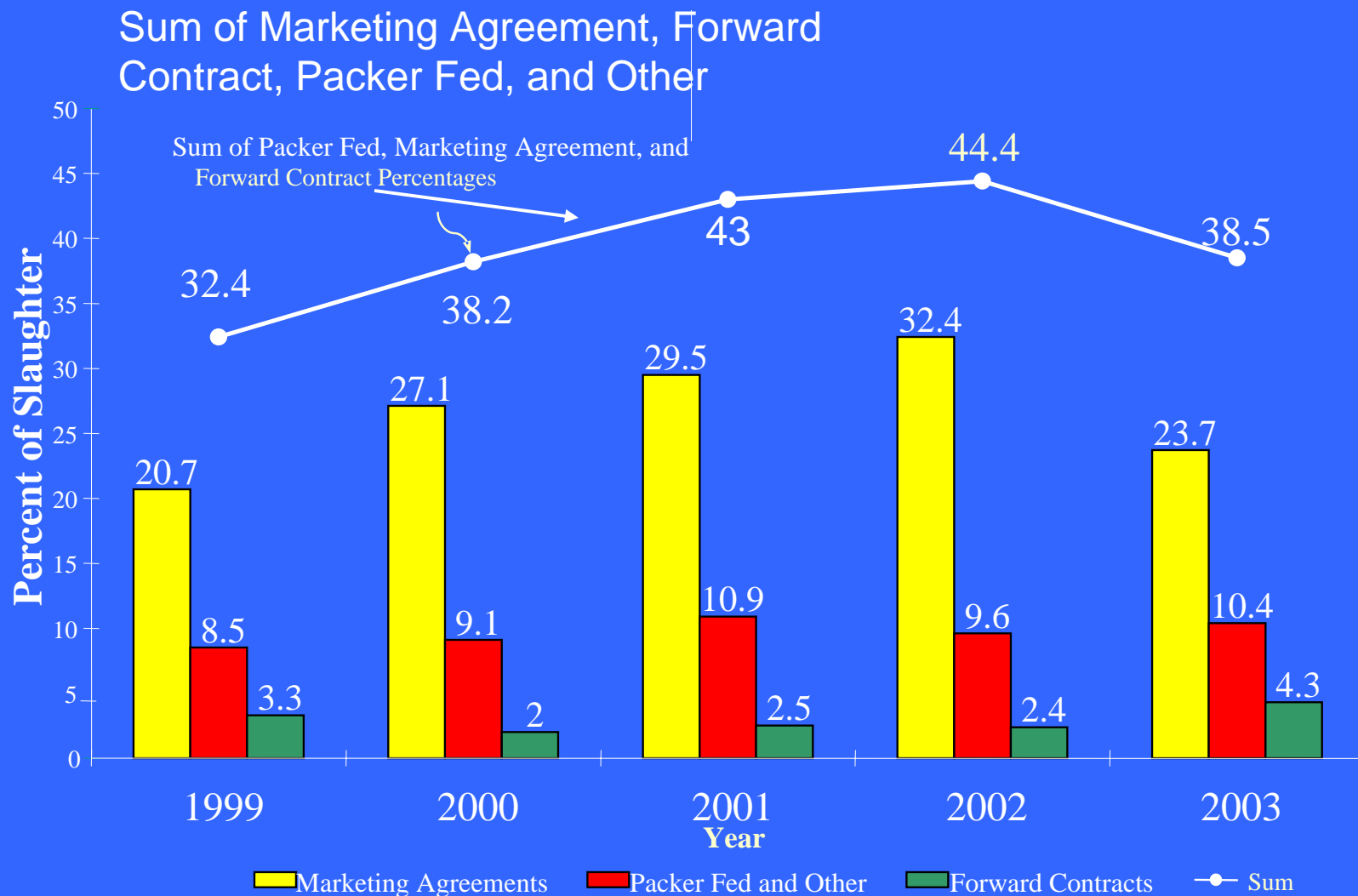
Source: Annual reports to GIPSA by packers.

GIPSA's Definition of Captive Supply

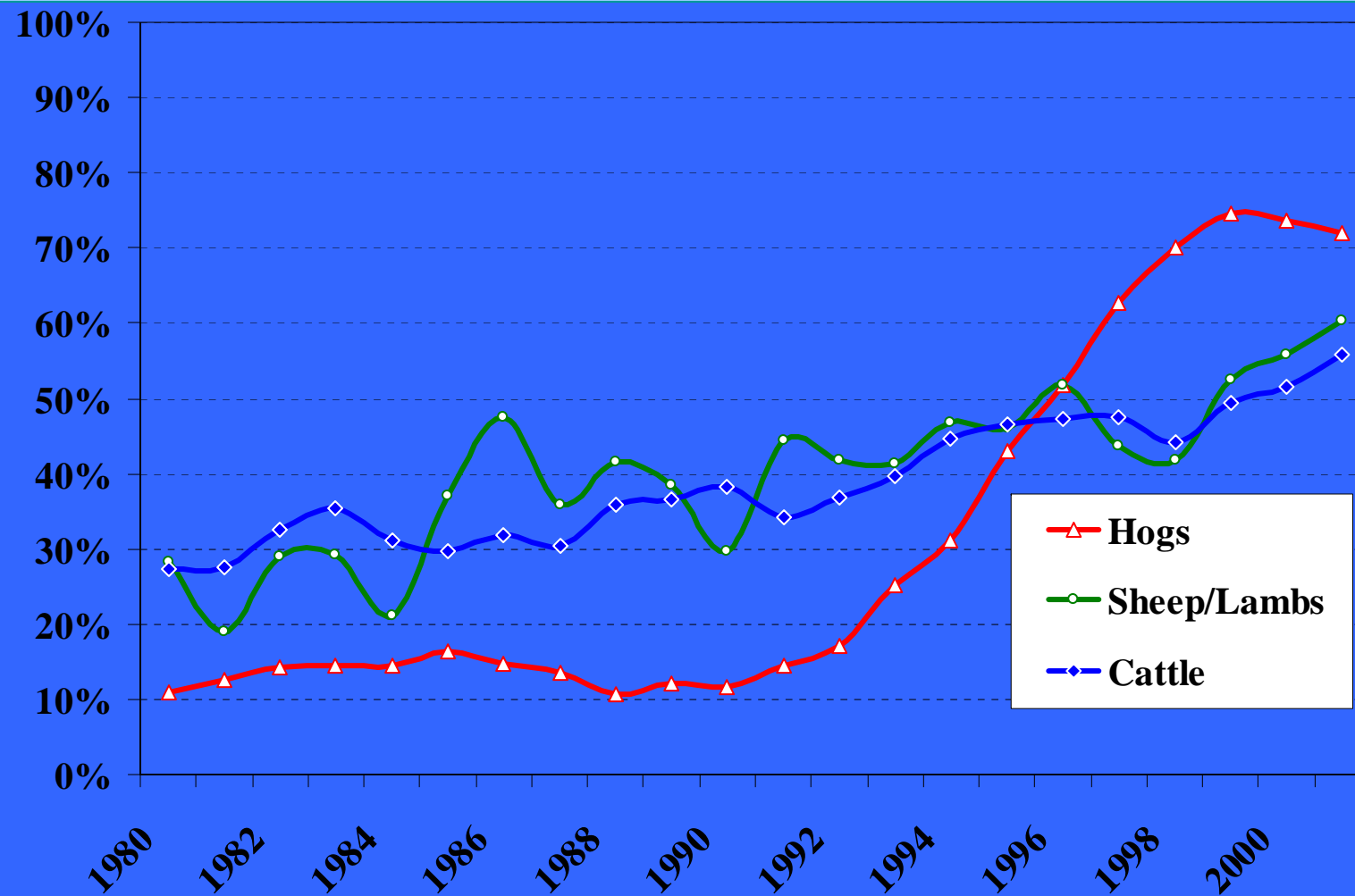


- Livestock owned or fed by a packer more than 14 days prior to slaughter
- Livestock procured through a contract or marketing agreement in place for more than 14 days
- Livestock otherwise committed to a packer more than 14 days prior to slaughter
- The definition is based on when packers procure livestock rather than how livestock is priced

Committed Procurement of Fed Cattle



Carcass-basis Purchases as Share of Total Livestock Purchases

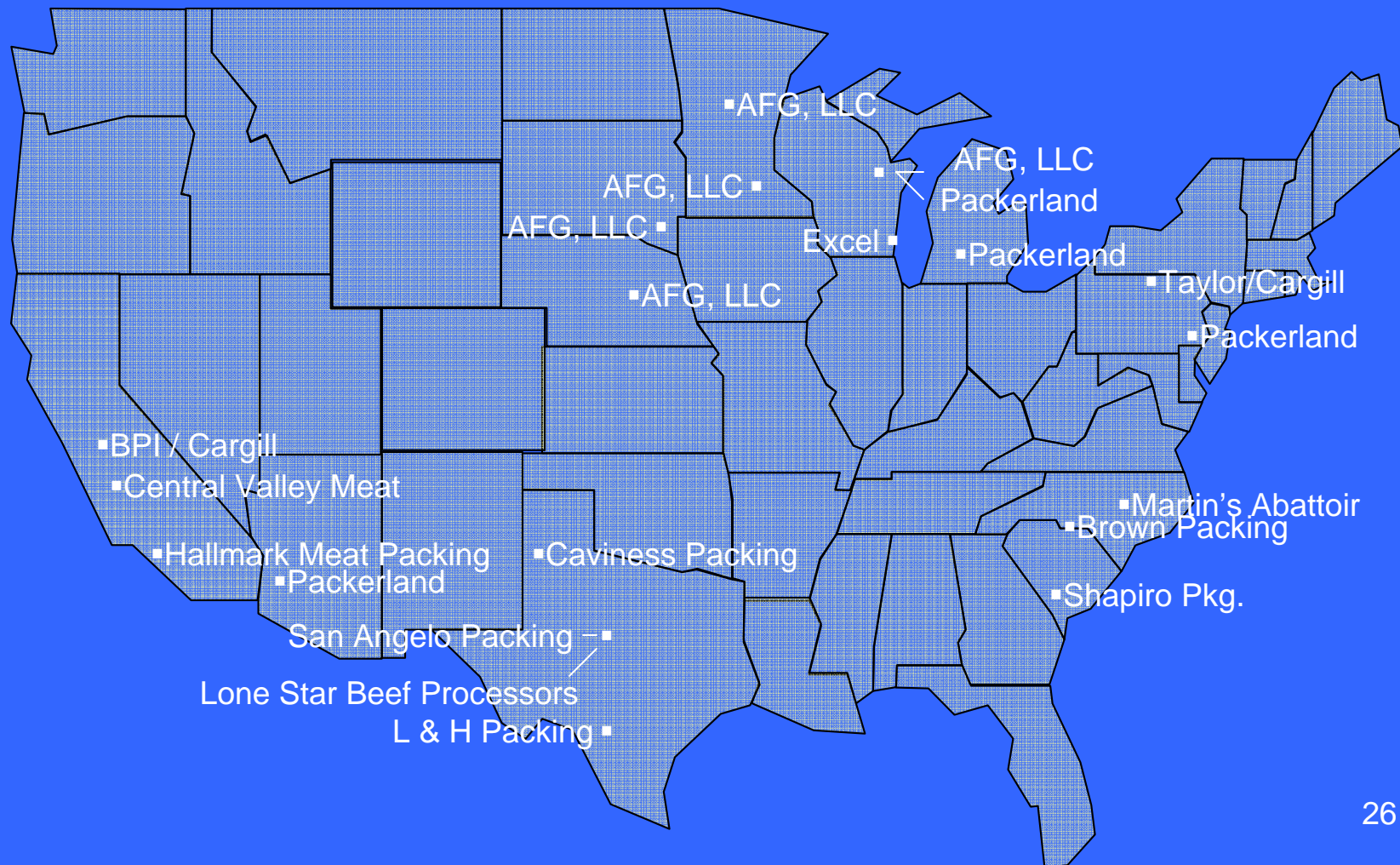


Source: Annual reports to GIPSA by packers

Cow and Bull Packers

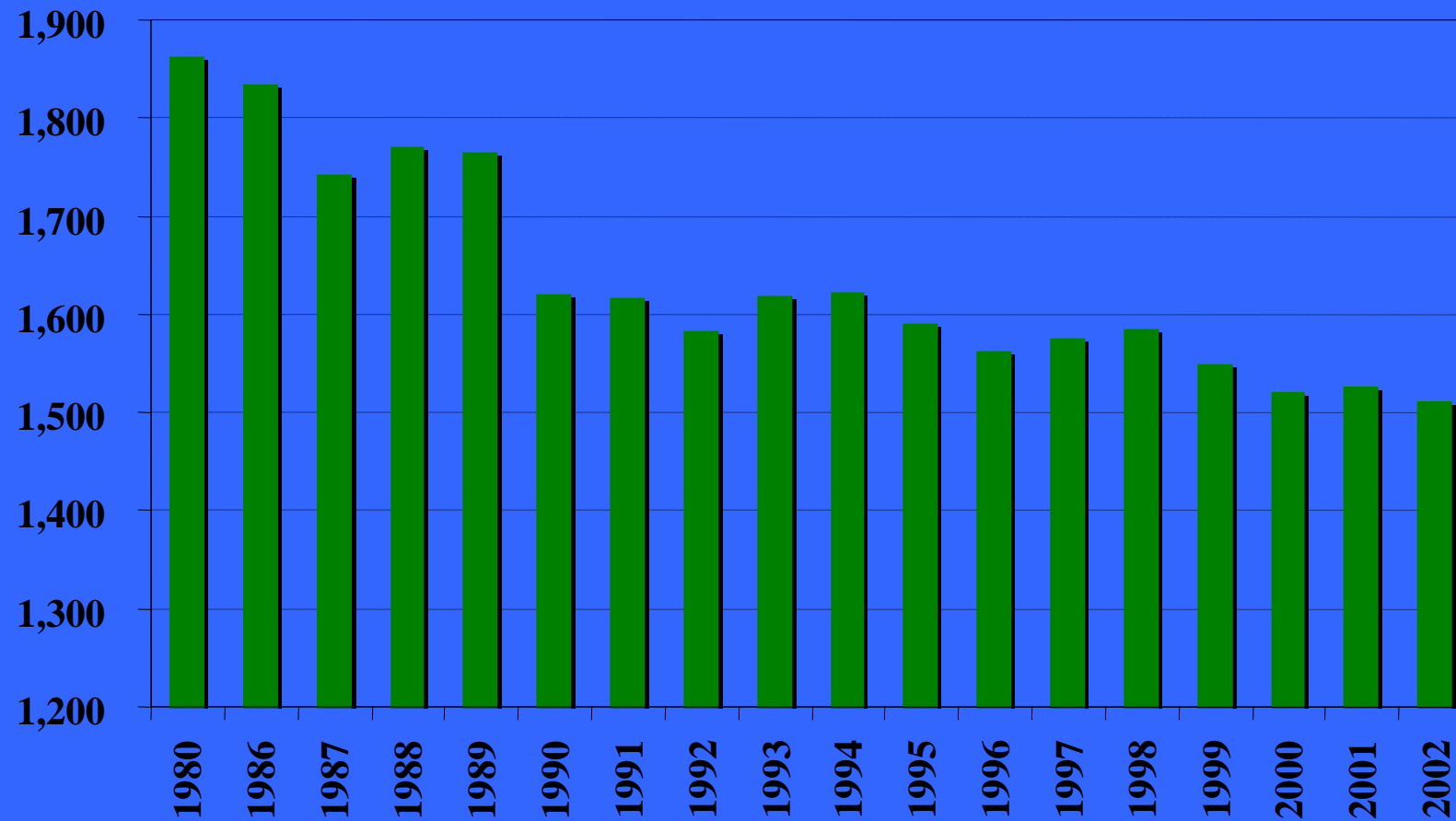


Slaughtering More than 100,000 Head of Cows and Bulls



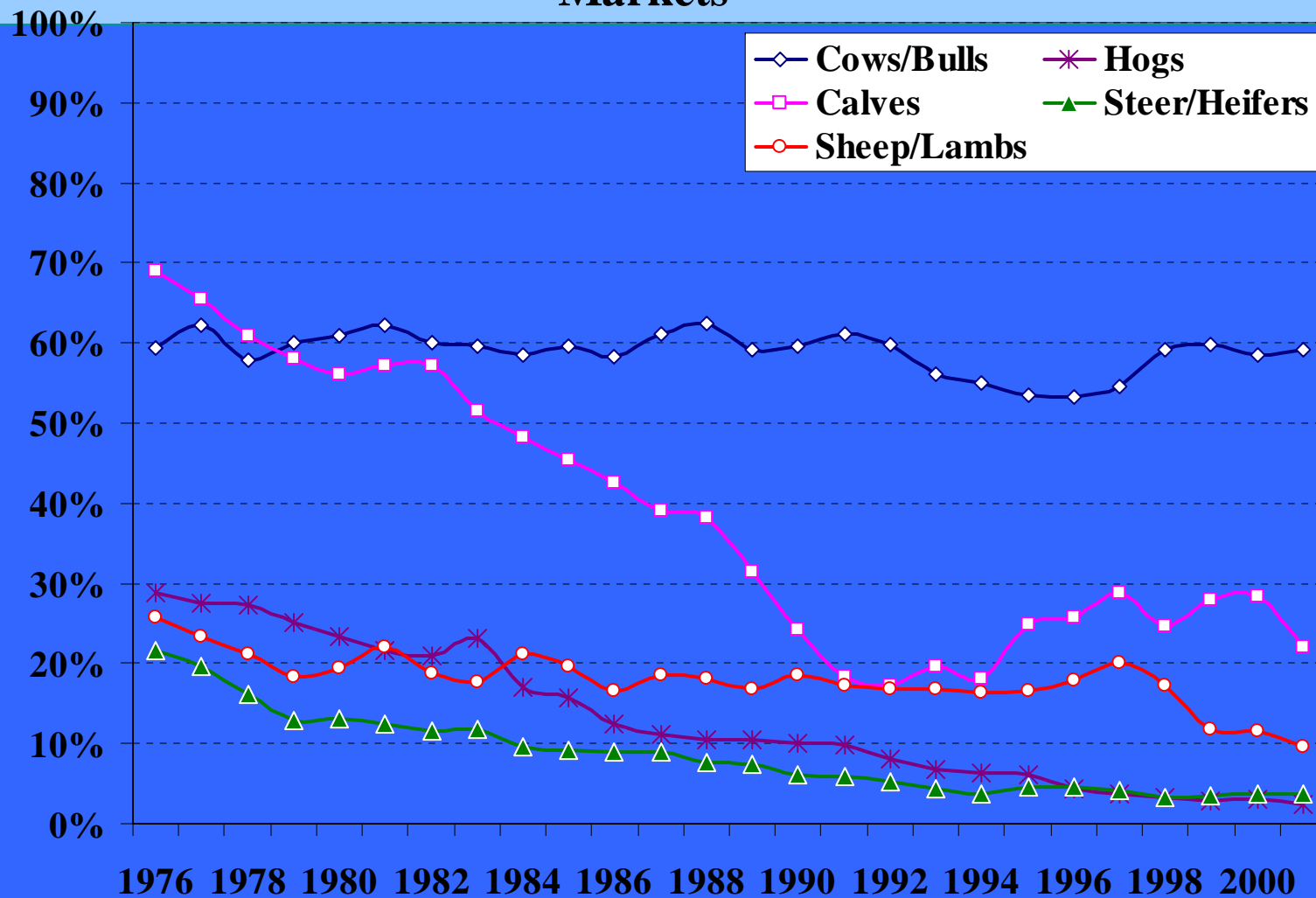


Total Number of Public Livestock Markets (Terminal and Auction Markets) in the United States



Source: USDA-GIPSA

Share of Packers' Livestock Purchases through Public Markets



Source: Annual reports to GIPSA by packers.



“P&SP Response to Industry Change”

Beef Industry Change

since September 2002



- IBP, inc. – purchased by Tyson Foods, Inc.; named: Tyson Fresh Meats
- Con-Agra Beef, Inc. – controlling interest purchased by investment group; name changed: Swift & Company
- Farmland National Beef – controlling interest purchased by U.S. Premium Beef; named: National Beef Packing
- Excel Corporation – changed name to: Cargill Meat Solutions

New Technologies



- Digital Camera measures fat thickness and rib eye area.
- Carcass weight and a standard KPH are used to calculate Yield Grade to the nearest tenth.
- AMS currently working toward approving use of vision technology in quality grading.

Voluntary Industry Standards



American Society of Testing Materials F-10 Committee: ELECTRONIC CARCASS EVALUATION DEVICES

- Consensus process utilized in industry to develop industry standards on electronic carcass and livestock evaluation devices.
- F-10 committee includes packers, equipment manufacturers, national and state weights & measures officials, producer organizations, universities, AMS and GIPSA.

F-10 Sub-Committees



F-10.10

Standard specifications for **design and construction of devices or systems.**

F-10.20

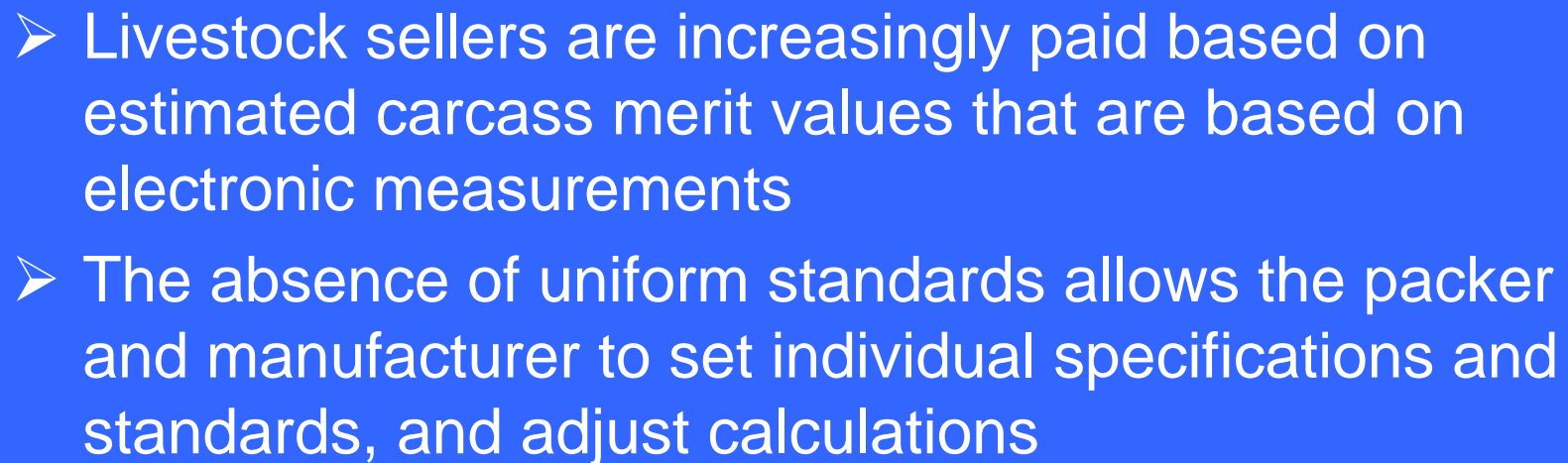
Standard test method; for **accuracy of evaluation devices or systems.**

F-10.30

Standard practice for **user requirements for devices or systems.**

F-10.40

Standard specification for developing and validating **predictive accuracy of equations or models.**



Livestock and Meat Marketing Study



- In FY 2003, GIPSA received a \$4.5 million appropriation for broad study of marketing practices in the livestock and red meat industries
- The study includes farm to retail, as well as, food service firms and exporters
- The study will address many concerns raised about the structure and business practices in the livestock and meat industries
- The study will include captive supply issues

RTI, International

Contract Awarded in July 2004



TEAM MEMBERS

- Colorado State University
- Iowa State University
- Montana State University
- North Carolina State University
- The Wharton School at the University of Pennsylvania

Findings From the Study Will:



- **Contribute to better public understanding of the role of alternative marketing arrangements**
- **Identify the extent of the use of marketing arrangements**
- **Identify the reasons producers enter into them**
- **Identify the implications of such arrangements**
- **Assist GIPSA in enforcing the P&S Act by identifying areas that may need to be examined in investigations**

February 2006: Status of Study



- RTI published a interim report in July 2005
- http://archive.gipsa.usda.gov/psp/issues/livemarketstudy/LMMS_Interim_Report.pdf
- RTI is currently collecting transactions data from the largest meat packers, meat processors, food wholesalers and retailers
- Expected completion date for LMMS final report is late in 2006



“Protection for Livestock Producers”

Prompt Payment Requirements - Dealers & Auction Markets



- For live weight purchases, the P&S Act requires payment for livestock by the close of the next business day following purchase and transfer of possession.
- Any agreement to extend credit must be in writing.

Prompt Payment Requirements Packers – live weight purchases



- The P&S Act requires payment for livestock by the close of the next business day following purchase and transfer of possession.
- Any agreement to extend credit must be in writing.
- Packers must obtain a statement from credit livestock sellers to acknowledge they are waiving statutory trust rights.

Carcass Weight Transactions



- Understand terms and conditions of sale before livestock delivered.
- The P&S Act requires payment for carcass weight purchases by the close of the next business day following determination of carcass price.
- Final grade must be determined within two business days following harvest.

Statutory Trust for Cash Livestock Sellers



- Applies to slaughtering packers purchasing over \$500K in livestock in commerce.
- Unpaid cash sellers give written notice to packer and P&SP to preserve trust rights.
- Cash seller must give notice within 30 days of date payment was due under the Act.
- Packer must preserve the cash, accounts receivable and inventory for the benefit of unpaid cash sellers.
- Trust creates statutory preference in bankruptcy.
- P&SP does not control trust asset distribution.

Preserving Trust Rights and Bond Claims



To Preserve Trust Rights and Bond Claims, Unpaid Cash Livestock Sellers Must:

- Promptly report returned checks or nonpayment for livestock to P&SP,
- File statutory trust claim within 30 days of date payment was due, or within 15 business days after receipt of notice of an NSF check, and
- File bond claims within 60 days of the transaction date.

Live Weight Transactions



- As purchaser, discuss and understand how supplier will be compensated (commission or mark-up),
- As buyer or seller, discuss and understand the weighing conditions,
- Know whether the scale has been tested and certified,
- Request copies of scale tickets.

Contact Information



- Western Regional Office 303-375-4240
- Complaint Hot Line 800-998-3447
- Web Address www.gipsa.usda.gov
- Email PSPComplaints@usda.gov

QUESTIONS?

